

# business review

Last year, our aim was to place Esprit on the fast track to global expansion. We are therefore doubly pleased to see that the Esprit lifestyle is continuing to gather momentum as we achieved yet another record year of profit and turnover in FY2000/2001. Overall growth in turnover increased 11.4% and operating profit after finance costs grew 30.7% resulting in our Shareholders' Funds as at the end of June 2001 exceeded HK\$2.0 billion. This achievement is all the more significant as it counters negative global economic trends and slowing markets around the world.

## **EUROPE – DRIVING MOMENTUM...FUELLING GROWTH**

The tremendous momentum of the Esprit brand in Europe has borne fruitful dividends, leading to a 35.8% increase in turnover in Euro terms.

During the year, Germany continued its reign as our largest market growing at 33.5% in Euro terms. France and Austria however were our fastest growing markets, registering growth at 59.3% and 53.2% respectively. Benelux (i.e. Belgium and the Netherlands) saw relatively more modest growth at 37.5%. Impressive as these figures are, our penetration in these markets is still low. We therefore have every confidence that Esprit will continue to play an increasingly important role in the European market.

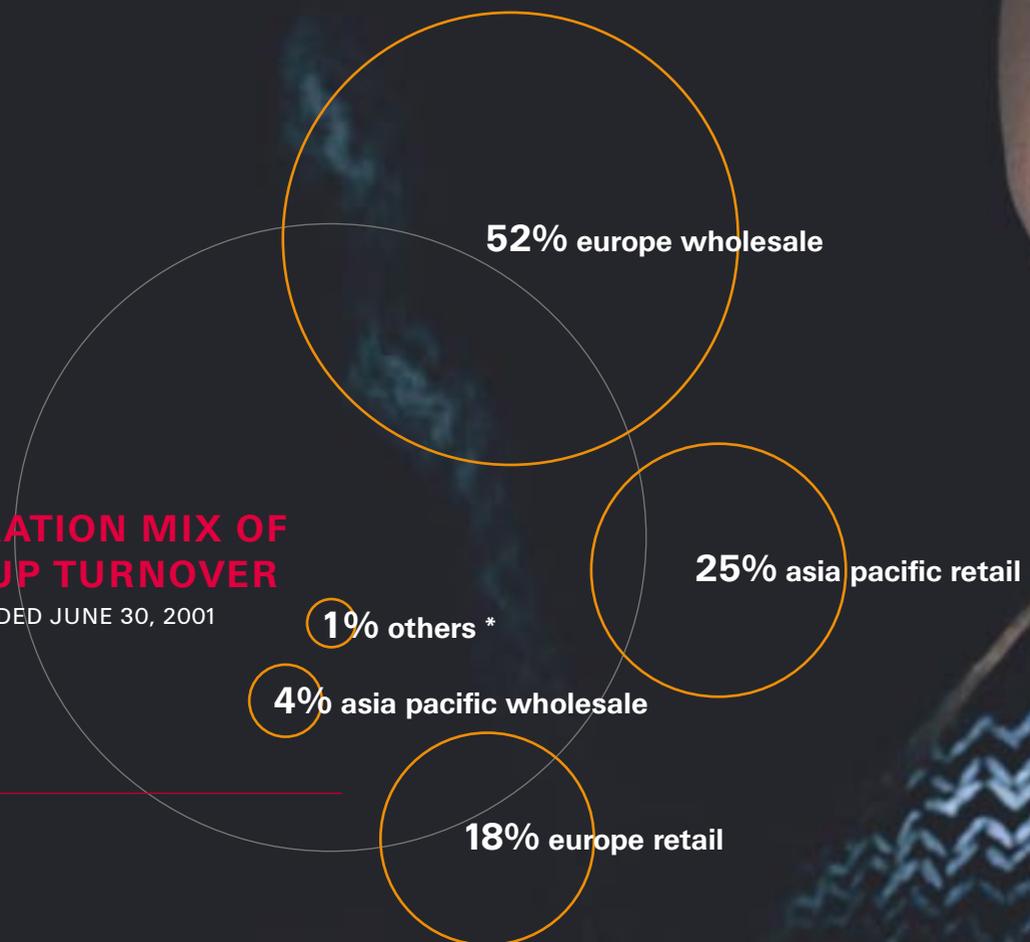
Our controlled space strategy contributed significantly to this strong growth, as our products became more accessible to more consumers through more third party managed stores throughout Europe. This aggressive growth not only increases our brand visibility and customer facilities – we now have over 750,000 square feet of third party retail space representing 44% growth over last year – it also encourages our partners and wholesale customers to actively promote our products.

Among the year's many highlights, a major step was taken outside continental Europe with our re-entry into the United Kingdom. Our first store, a 22,000 sq.ft. mega-store, opened on Regent Street in London in May this year. A second store has been opened in September at the Bluewater Mall in Kent. In time, we expect our activities in this market to significantly enhance our brand awareness.

the esprit lifestyle continues to gather momentum

## OPERATION MIX OF GROUP TURNOVER

YEAR ENDED JUNE 30, 2001



\* includes royalty and commission income



esprit sport



timewear



bodywear



bed & bath



shoes and accessories



red earth



homeware



### ASIA PACIFIC – GROWING OPPORTUNITIES...STAYING AHEAD

Developments in Asia Pacific were more restrained. Hard hit by dampened markets, discounted pricing and currency depreciation, the market rebound of the previous year tailed off. Catering for more price sensitive customers, we have been striking a balance – boosting sales through more frequent promotions and resisting the urge to cut prices which we see as damaging to our global brand and image. Despite growth in both Hong Kong and Malaysia, total sales for the region, excluding China, reported an overall decline of 2.1% in local currency terms.

During the year, we opened and signed leases for mega-stores in some of the busiest traffic locations in the world. Leading this list is our flagship store scheduled to be opened in the last quarter of 2001 in Causeway Bay, Hong Kong. With over 40,000 sq.ft., it will be our largest store in the world. Another mega-store will also be opened at a prominent location in Tsimshatsui later this financial year. In Hong Kong, we are thus well positioned to take advantage of the anticipated increase in tourists from mainland China.

Consolidating our position in the Canadian market, Esprit Canada is emerging with a major focus on retail operations. Resources were channelled into increasing square footage which grew over 70% during the financial year. Stores rolled out in all major cities and we are now highly visible in Canada. The pace will further pick up as the full impact of the new retail facilities is reflected.

Sounding a highly positive note is the China market. Building on our unique positioning as an international brand in China, we continue to enjoy escalating growth of 52.2% and 154.3% in turnover and net profit respectively. The ongoing momentum is being fuelled by our expanding target market – the middle class. The joint venture in China now operates approximately 90 directly managed stores in Shanghai, Beijing and Dalian, and over 100 franchisees with approximately 360 franchised shops in more than 90 cities. During the year, 2 new mega-stores were also opened in Shanghai.



**TURNOVER:**

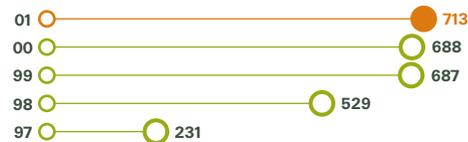
**WOMEN'S WEAR**  
(HK\$ MN)



**MEN'S WEAR**  
(HK\$ MN)



**KIDS' WEAR**  
(HK\$ MN)



**KEEPING FIT...STAYING TRIM**

Weathering the storm ahead, our aim is to anticipate and be responsive to market changes, maintaining our vigilance as we seek lower costs and prepare for increasingly fierce competition. With our expanding scale and scope, we are able to exercise greater clout to gain better prices from suppliers. Stringent cost controls on staffing and inventory management as well as the outsourcing of our distribution in Europe and Australia have all led to significant cost savings.

We managed to decrease total staff and building expenses by 1.3% as a percentage of turnover, which contributed to the 2.1% points overall improvement in our operating margin. At the same time, we benefited from the opportunity to expand our retail facilities with larger shops and better locations. Building on our mega-store philosophy, strengthening our brand awareness and reinforcing Esprit's lifestyle concept, we invested over HK\$500 million in capital expenditure last year and expanded our directly managed sales footage by 27% to over 1.3 million sq.ft.

Together with our solid financial position, this fitter and sleeker organization will provide the springboard for sustaining our future growth and success.

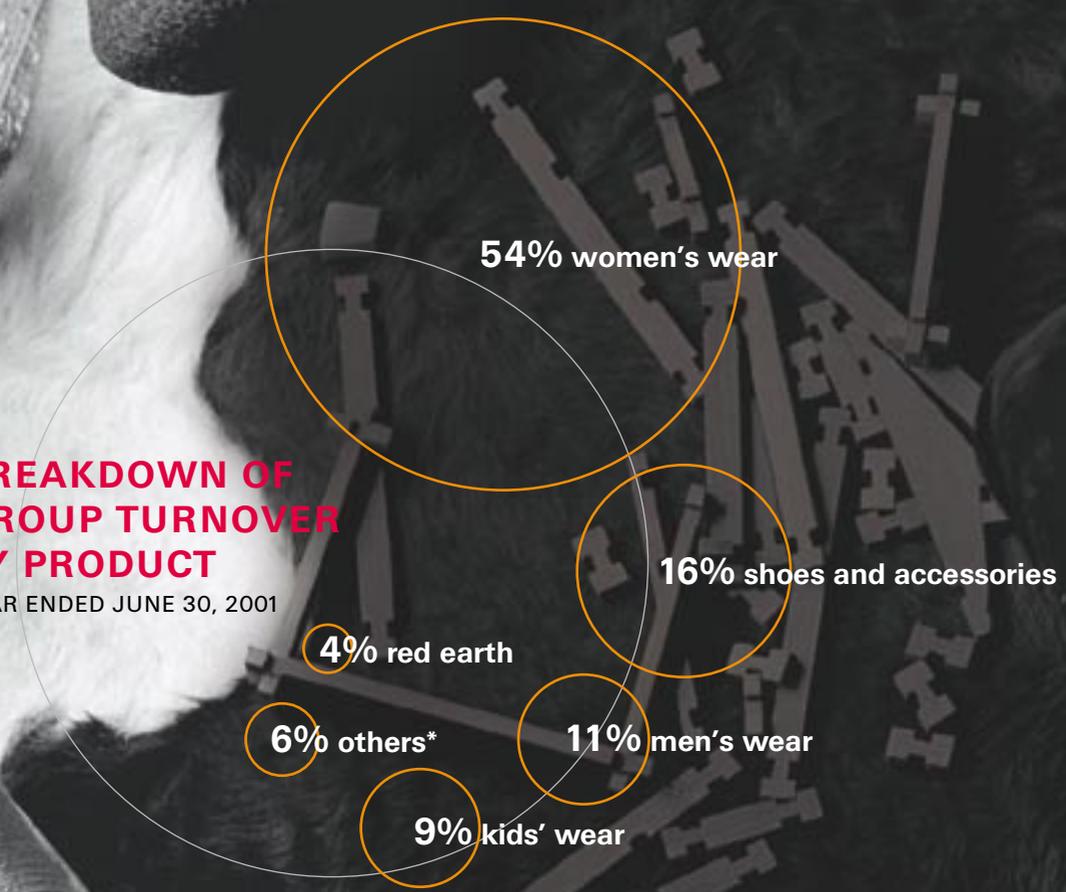
**THE ESPRIT LIFESTYLE – RIGHT PRODUCT...RIGHT PLACE...RIGHT TIME**

Complementing our contemporary Esprit brand, is our diverse product range from women's wear, men's wear and children's fashions to accessories and shoes, bodywear, cosmetics as well as our many licensed products for the home. Leading market trends, we produce over 8,000 designs in 12 collections a year to make sure that the right products hit the markets at the right time.

In FY2000/2001, women's wear continued to dominate our business, growing an overall 13.5% and accounting for over 50% of our total sales. This figure was actively boosted by the success of our EDC line, appealing to a younger and more contemporary market, which grew a highly encouraging 40%. In Europe, we also launched a new women's wear line – Esprit Sports, which is proving to be extremely popular with retailers and customers. We expect additional growth in this sector, as the sports line opens up the specialist sportswear market and is launched in Asia Pacific.

**BREAKDOWN OF  
GROUP TURNOVER  
BY PRODUCT**

YEAR ENDED JUNE 30, 2001



\* includes salon, café, bodywear, bed & bath, homeware & licensed products like timewear, eyewear, jewelry, etc.

## product and market data of group turnover

FOR THE YEAR ENDED JUNE 30

	2001	2000	1999	1998	1997
<b>OPERATION MIX (%)</b>					
wholesale – europe	52	47	43	41	27
wholesale – asia pacific	4	5	5	3	6
retail – europe	18	18	20	22	16
retail – asia pacific	25	29	31	33	50
others*	1	1	1	1	1
<b>GEOGRAPHICAL MIX (%)</b>					
germany	48	45	44	43	29
hong kong	14	15	13	15	23
benelux	12	11	12	11	8
other asia pacific countries	16	20	24	21	26
other european countries	9	8	6	6	4
others	1	1	1	4	10
<b>PRODUCT MIX (%)</b>					
women's wear	54	53	54	59	62
men's wear	11	11	9	9	9
kids' wear	9	10	11	10	7
accessories	7	9	11	]19	]20
shoes	9	8	8		
red earth	4	6	5	2	1
others**	6	3	2	1	1

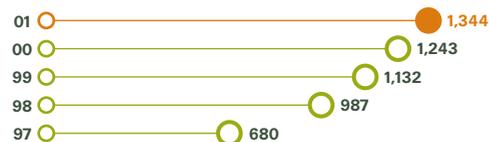
\* includes royalty and commission income

\*\* includes salon, café, bodywear, bed & bath, homeware & licensed products like timewear, eyewear, jewelry, etc.

**TURNOVER:**

**SHOES AND ACCESSORIES**

(HK\$ MN)



**RED EARTH**

(HK\$ MN)



**BODYWEAR**

(HK\$ MN)



Men's wear achieved a satisfactory year on year increase of 13.8%. Growth was particularly strong in Europe improving a positive 20.9% in Hong Kong dollar terms. Sales of Esprit Kids remained relatively stable increasing 3.6% during the year. Though smaller than the women's wear market, both men's wear and kids' wear, accounting for 10.7% and 8.8% respectively of our total turnover, play a significant role in our operations. Not only do they enhance and diversify the total Esprit mix, they also broaden our market base.

After a record year in FY1999/2000, our Red Earth range of colour cosmetics saw a retreat with turnover falling 20.9%. Sales in Australia were particularly affected as the brand completed its final stages of consolidation and repositioning. Gearing up to this challenge, plans are in hand to reposition the brand in Hong Kong, expand the brand in Malaysia and Singapore and launch it in Canada.

At the same time, our range of licensed products continues to expand. Apart from our timewear collection, we also carry eyewear, jewelry, bed and bath products, homeware as well as our latest additions – toys and fragrances.

Our market oriented product divisions, with their extensive knowledge of the different markets, continue to ensure the delivery of products with exceptional value and top quality. Their flexibility and speed to market have proven to be an effective weapon in the price wars within the industry. Europe also took a major step forward in its organizational re-structure, with the integration of both buying and merchandising in the retail business with the product divisions. This has resulted in a more focused view of market needs, more retail oriented sales packages and shorter product development and delivery cycles – all critical factors in winning market share.

# distribution network

AS AT JUNE 30, 2001		DIRECTLY MANAGED STORES		NO. OF FRANCHISED SHOPS
		SALES FOOTAGE (SQ. FT)	NO. OF STORES	
<b>total</b>		1,364,580	485	1,378
by region:	europa	541,802	110	1,103
	asia pacific*	822,778	375	275
in europa,	germany	315,478	62	872
	belgium	61,278	10	5
	the netherlands	76,281	20	37
	denmark	15,551	4	15
	france	25,764	9	84
	austria	21,858	2	67
	others	25,592	3	23
in asia pacific,	hong kong (incl macau)*	204,531	43	2
	australia (incl new zealand)	222,186	149	-
	taiwan	102,061	113	-
	canada	184,049	40	-
	singapore	71,670	22	-
	malaysia	38,281	8	-
	others	-	-	273
<b>increase (vs 2000)</b>		<b>289,177</b>	<b>13</b>	
china joint venture		136,233	89	361
<b>increase (vs 2000)</b>		<b>57,678</b>	<b>22</b>	

\* excluding china joint venture

### THE STEADY TRACK TO FUTURE SUCCESS

We have experienced a difficult yet rewarding year all in all. We have had to work harder but have not been cowed by the trying market conditions. The challenge now is to stay ahead and sustain our growth as we move into another stormy year ahead.

In Europe, we expect to reap the benefits of the aggressive capital expenditures invested in additional retail footage last year. We will also be extending the “vertical retailer concept” into the wholesale business from January 2002, a move which is expected to further reduce inventory risk for our wholesale partners by shortening lead times for pre-orders as well as increasing capacity for injection orders which should lead to better comparable store performance. Fighting the competition, we are continuing to introduce more quality products at lower pricing points.

In Asia Pacific where we already have stores in most of the major cities, our strategy is to maintain market share while enhancing efficiencies and cutting costs to improve overall margins and our bottom line.

Our philosophy is to “grow old trees while planting new ones”. To this end, apart from our move into the United Kingdom, we are commencing our franchise business in Korea where several new retail stores are scheduled to open by the end of 2001. We are also moving into the New Zealand market with the opening of around 10 stores in the next three years. At the same time, plans are being developed with regard to Spain and Japan.

Enhancing operating efficiencies, we are going further upstream to suppliers with the integration of our supply chain management systems. We anticipate savings from the elimination of manual procedures, as well as increased capabilities in refilling orders. At the same time our financial reporting capabilities are being streamlined with the implementation of Hyperion, an advanced consolidation tool linking our global financial data, which will enable us to perform faster reporting with more stringent requirements and will enhance the Group’s decision and risk management report. As the Group has a relatively high effective tax rate due to major profits are being generated from high-tax countries in Europe particularly Germany, we anticipate the lower tax rates in Germany taking effect in our FY2001/2002 will improve the Group’s overall tax rate significantly.

With this focused planning in place, strong financial position with HK\$388 million in net cash and no term loan, and the commitment and hard work of our people, we will not only retain but will continue to steadily grow our markets, products and services. Only by doing so can we remain on track to further global expansion and enhance our international brand recognition.